

A low-angle, upward-looking photograph of several modern skyscrapers in a city. The buildings are dark with many lit windows, creating a grid-like pattern of light. A large, semi-transparent teal gradient overlay covers the top half of the image, starting from a light blue on the left and fading into a darker green on the right. The text 'The Finance Manager Course Notes' is centered in white on this teal background.

The Finance Manager Course Notes

US GAAP and the IFRS

US GAAP and IFRS should converge at some point. However, the final steps towards such unification of accounting standards have not been taken.



GAAP

- GAAP are the rules companies in a particular country must comply with and adhere to when preparing accounting entries and financial statements.
- US GAAP stands for US generally accepted accounting principles.

- Every country has its own generally accepted accounting principles.
- It is easy to have differences between one country's GAAP and another country's GAAP
- Complications for companies operating internationally
- They must hire accountants and finance staff specialized in the accounting standards of all countries of operation.



IFRS

- An entity called International Accounting Standard Board was formed to create an international set of standards.
- International Financial Reporting Standards (abbreviated IFRS) is the product of its work

- Adopted by many countries around the world
- Required for all domestic public companies in the EU, and for all companies on European stock exchanges
- Small and Medium Enterprises do not have to use IFRS and can report using local GAAP.
- The US is still considering the adoption of the IFRS.

How do we measure financial performance?

Financial accounting revolves around three main statements – the Income Statement (also known as Profit & Loss or simply P&L), the Balance Sheet, and the Cash Flow statement. Each serves a different purpose and contains important information about how a business is running.

The Balance Sheet shows the assets the business controls.

- Answers the questions:
 - ✓ What does a firm owe and own at a certain date?
 - ✓ What is the company's financial position?
- The reason it is called a Balance Sheet is because total assets must equal liabilities plus shareholders' equity.



Balance Sheet

01

Income Statement



Also known as Profit & Loss (P&L)

- The Income Statement answers the questions:
 - ✓ How did the company perform throughout the period under consideration?
 - ✓ Did it produce a profit or a loss?
- Prepared for a 1-year period or on a quarterly basis for larger companies
- The P&L also enables us to find important trends, such as revenue growth.

02

The Cash Flow statement shows us the movements of cash.

- It answers the question:
 - ✓ How much cash did the company make during the period under consideration and where did it come from?



Cash Flow Statement

03

Three Main Statements

3 main statements

You will find these statements in every company's annual report.

